Media & Telecomm Industry Overview

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November 20, 2014
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Market Trends
Industry Trends
2014 YTD IPO’s
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Pitch Ideas
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Market Trends

T. Rowe Price Media and Telecom Fund (PRMTX)
- Price: 73.57
- Beta vs. SPX: 0.97
- YTD return of 5.92%
- Top holdings: American Tower Corp (5.6%), Crown Castle Intl (5.4%), Time Warner Cable (5.1%)

Vanguard Communication Services (VTCAAX)
- Price: 89.82
- YTD return of 7.57%
- Top holdings: AT&T (23%), Verizon Communications (23%)
- Holds total of 30 companies
**Market Trends**

**Decline in Ad Sales**
- About 5% decline in cable and broadcast ad revenues
- Omnicom Group advised clients to shift 10-25% of TV ad dollars to digital platforms
- Young people watching less TV – cable ratings down 8% among adults 18 to 49 years old.

**Obama’s Call to FCC Over Net Neutrality**
- “Strongest possible rules” are needed to ensure Internet does not divide into slow and fast lanes
- Web companies can currently charge websites to offer more customers
- Resulted in a slide in broadband provider’s shares
- Comcast and Time Warner fell 4% and 5% following Obama’s statement
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Publication Trends

- Growth of digital subscriptions offsetting decline in print services
- Consolidation of companies however elimination of antiquating divisions of news corporations (e.g. radio)
- Decreased revenues from printed advertising
- Increased advertising from more targeted ads

The New York Times  News Corporation

Blyth Fund
Filmed Media Trends

- Adjusted for inflation, Summer 2014 was worst domestic box office since 1992
- Decline in domestic box office offset by massive surge in global box office especially in China, South America, and Russia.
- New revenue streams emerging through digital distribution that allows content producers to bypass middlemen.
• Over-The-Top Content
  – OTT market surpassed $8 billion in 2012 and projected to surpass $20 billion by 2015.
  – Pay TV operators are integrate their own/3rd party OTT services.

• Advertising Spending Shares Move Online
  – Online ads offer far greater capability to target engaged audiences with power of granular audience measurement
• 4G deployment and LTE-Advanced
  - Up until now, mass adoption of LTE has primarily been seen in North America and China, but in 2014, we expect to see usage accelerating in Europe.
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Recent Media & Telecom IPO’s

Several telecom companies go public to raise capital and prepare for a new wave of acquisition

**Global Trends**

- Only a limited number of global telecommunications/media companies choose to go public, especially in 2014
- Mergers & acquisitions very active within the sector
- The majority of companies going public in M/T are large hardware-centric telecommunications companies looking to expand and consolidate
- The telecom industry is driven by advance in information technology such as the fourth generation network (4G)

**Sector Split: 2014 YTD**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Money raised ($bn)</th>
<th>No. of IPOs</th>
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</thead>
<tbody>
<tr>
<td>Cons. Services</td>
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<tr>
<td>Financials</td>
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<td>Oil &amp; Gas</td>
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<tr>
<td>Cons. Goods</td>
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<tr>
<td>Technology</td>
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<tr>
<td>Utilities</td>
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<tr>
<td>Basic Materials</td>
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<tr>
<td>Telecom</td>
<td>$197.0bn</td>
<td>802</td>
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</tbody>
</table>

**Case Study 1: Zayo Group**

- Zayo Group is a global provider of bandwidth infrastructure services, including dark fiber, wavelengths, Ethernet, IP services, SONET, carrier-neutral colocation, and technical services.
- History: was built largely through acquisitions – took over thirty companies from 2007 – 2014
- IPO: raised $287.8 million in its IPO on Oct 17, 2014, priced shares for the public at $19; a total of 21.1 million stocks
  - Finished up 15% on first day as public company
  - Morgan Stanley, Barclays, Goldman Sachs leading the offering.
- If Zayo can show a few quarters of organic growth, it will be well position to acquire private fiber carriers who want to avoid the risk of public offerings, said an industry source.

**Case Study 2: EE Limited**

- EE Limited, formerly Everything Everywhere, is the largest mobile network operator in the UK, with around 28 million customers
- We are building the best mobile network by investing £1.5bn over three years to rollout superfast 4G mobile services covering 85 towns and cities, and aiming to reach 98% of the UK population by the end of 2014. This builds on our £15 billion investment since 2000 building Britain’s biggest 3G mobile network. Our fixed Fibre Broadband service has now reached 15 million households.
- Deutsche Telekom and Orange put the IPO plans on hold after a strategic review of the business, as they felt the firm’s valuation would rise once more people bought higher-margin mobile data packages in the 4G market
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M&A Trends in Media and Telecom

- Wide array of consolidations and purchases, sometimes crossing international boundaries, some which face heavy regulatory scrutiny for monopoly potentials.
- Some are noted to face heavy regulatory scrutiny, since they may create monopolistic bodies.
M&A Trends in Media and Telecom

• Highest level since 2006, M&T mergers among the most active of any coverage group.
• M&T giants looking to buy others with complementary assets and industries, so as to avoid regulator troubles for monopolization and to diversify.
Ongoing Mergers & Acquisitions

• Comcast’s → Time Warner Cable (45 billion USD): facing regulatory approval

• Softbank (Sprint owner) → T-Mobile USA: backed away after regulatory hassle, rumored to be trying again

• AT&T → DirecTV (48.5 billion USD, plus 19 billion in debt): final approval stages
Ongoing Mergers & Acquisitions

• 21st Century Fox: failed takeover of TWC earlier this year, just finalized joint venture deals with rival Apollo Management

• Vodafone → Grupo Corporative ONO (Spain) (10 billion USD): nearing completion

• Altice → Societe Francaise du Radiotelephone (23.6 billion USD)
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• Global (Intergalactic?) Empire
• Continued expansion of franchise, from new classics (Frozen) to Marvel (Avengers, Guardians), Lucasfilm (Star Wars), Maker Studios
• Star Wars VII, even more Avengers, and a new princess are all in the works
• Annual EPS growth rate over past 5 years is 19%
• Increased theme park attendance (and more revenue generated there)
Verizon (VZ)

- High dividend yield (about 4%)
- Government is in process of selling more broadband to companies, and Verizon is expected to gain a large swath of it again (XLTE)
- Potential Pitfall: Net Neutrality (Verizon against it, President is for it)
Take Two Inactive (TTWO)

Company Overview
- American multinational publisher, developer, and distributor
- Second biggest game publisher in the US
- Top 1 console and handheld video game publisher in US
- Does Wii, now Xbox and PlayStation
  - WWK, NBA2K14, Dora

Console Game Market Analysis
- 613% increase in U.S. game industry’s total revenue in the past 4 years (from 314m USD to 2240m USD)
- Console is the fastest growing segment
- Handheld console cover rate is increasing
  - 53% owns the device
  - 87% believe that there is a difference
- Unlike other game segment’s Free2Play model, console games bring direct revenue

Comparative Advantages
- Multiple studios in California, Canada, China, Japan
- Existing partnership with key distribution channels (Wii) and game theme (Dora)
- Existing branding image from the 2K games
Take Two Inactive (TTWO)

Company Growth
• 94% net revenue growth in 2014
• Grand Theft Auto reached $1 billion
  – Faster than any retail release in the past
• Focus on old series game (2K14, NBA) while developing new games

Reasons for Recommendation
• Electron Arts is willing to acquire Take Two
  – Attempted in 2012 for $26 per share
  – Still interested
• Currently developing new game series
• Signed contract with Xbox and PlayStation 4
• Extending the existing game series into handhold/mobile game industry

Multiples compared with peers

<table>
<thead>
<tr>
<th>Peer Companies</th>
<th>Market Cap</th>
<th>Revenue TTM</th>
<th>EV/EBITDA</th>
<th>P/E</th>
<th>P/S</th>
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<tbody>
<tr>
<td>Take-Two</td>
<td>$2,236</td>
<td>$2,333 9.0x</td>
<td>20.7x</td>
<td>1.3x</td>
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<tr>
<td>CMGE</td>
<td>$478</td>
<td>$1207 7.3x</td>
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<td>Perfect World</td>
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<td>$581 6.3x</td>
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<td>iDreamSky</td>
<td>$870</td>
<td>$89 NA</td>
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<td>TAOM</td>
<td>$174</td>
<td>$51 51.3x</td>
<td>59.5x</td>
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<td>YY</td>
<td>$4,740</td>
<td>$425 24.5x</td>
<td>22.2x</td>
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